# IHH Healthcare (IHH MK)

## Defensive Medicine In a Risk-On Market

**HOLD** (Maintained)

| | |
|---|---|
| Share Price | RM8.30 |
| Target Price | RM8.05 |
| Upside | -3.0% |

## Highlights

- Neutral Budget 2026 impact on private hospitals, including IHH.
- 2H25 earnings should come in firmer, backed by various initiatives that were backloaded into the year. Open offer price for Fortis remains unchanged.
- Maintain HOLD and target price of RM8.05.

## Analysis

- **Neutral Budget 2026 impact to IHH.** The 2.6% increase in allocation to the Ministry of Health marks a moderation from the double-digit growth seen in previous years. The absence of major new private hospital-related policies is largely in line with expectations. The government's focus appears to remain on addressing medical cost pressures through the planned rollout of the Diagnosis-Related Group system - a fixed-fee, diagnosis-based hospital payment model targeted for implementation by 2027 - that was previously addressed before Budget 2026.
- **Expect 2H25 earnings to be firmer.** IHH Healthcare's (IHH) 1H25 earnings of RM844m accounts for 47% of our full-year earnings forecast. However, we expect a firmer set of earnings in 2H25 to shore up overall earnings. This is due to: a) Mount Elizabeth Orchard in Singapore has been completed in June, and will see a phased reopening and ramp-up throughout 2H25, b) a ramp-up of its new hospitals along with the integration of acquired Bayender Healthcare (three hospitals) and more stable macro conditions, and c) the integration of Fortis and Gleneagles India will result in synergies through standardised procurement, IT and cost optimisation.
- **Status quo with Fortis unchanged.** After nearly seven years, IHH has finally received regulatory clearance to proceed with its delayed mandatory open offer for a 26% stake in Fortis Healthcare. The offer was originally proposed in 2018 but was delayed due to a Supreme Court stay related to Daiichi Sankyo's arbitration case, which froze approval. IHH has opted to leave its offer price unchanged at INR170 per share, well below Fortis Healthcare's last close of INR1,089. IHH retains management control with its existing 31% stake and is not fully realising (only 31% stake) the value created since its initial investment. Nonetheless, we deem this as neutral, as executing the open offer at a premium to current valuations would have been earnings-dilutive for IHH, given Fortis Healthcare's elevated forward PE of 67x.

### Key Financials

| Year to 31 Dec (RMm) | 2023 | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|
| Net turnover | 20,935 | 24,383 | 26,385 | 28,971 | 31,724 |
| EBITDA | 5,650 | 5,542 | 4,342 | 4,924 | 5,129 |
| Operating profit | 4,651 | 4,521 | 3,296 | 3,852 | 4,028 |
| Net profit (rep./act.) | 2,953 | 2,657 | 1,808 | 2,066 | 2,381 |
| Net profit (adj.) | 1,280 | 1,685 | 1,808 | 2,066 | 2,381 |
| EPS | 14.6 | 19.2 | 20.6 | 23.6 | 27.2 |
| PE | 55.2 | 42.0 | 39.1 | 34.2 | 29.7 |
| P/B | 2.4 | 2.3 | 2.3 | 2.2 | 2.0 |
| EV/EBITDA | 14.9 | 15.2 | 19.5 | 17.2 | 16.5 |
| Dividend yield | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 |
| Net margin | 14.1 | 10.9 | 6.9 | 7.1 | 7.5 |
| Net debt/(cash) to equity | 20.4 | 37.9 | 28.9 | 20.8 | 11.7 |
| Interest cover | 6.7 | 7.0 | 5.0 | 5.8 | 6.5 |
| ROE | 10.7 | 9.0 | 5.9 | 6.4 | 7.1 |
| Consensus net profit | - | - | 2,007.5 | 2,281.3 | 2,621.7 |
| UOBKH/Consensus (x) | - | - | 0.90 | 0.91 | 0.91 |

*Source: IHH Healthcare, Bloomberg, UOB Kay Hian*

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### Stock Data

| GICS Sector | Healthcare |
|---|---|
| Bloomberg ticker | IHH MK |
| Shares issued (m) | 8,836.2 |
| Market cap (RMm) | 70,777.6 |
| Market cap (US$m) | 16,747.3 |
| 3-mth avg daily t'over (US$m) | 16.4 |

### Price Performance (%)

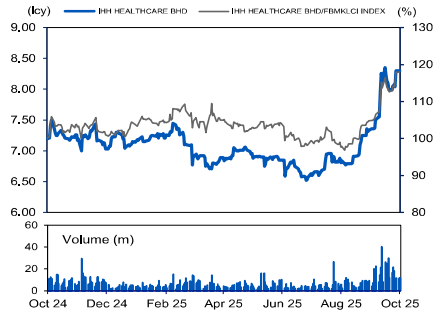
52-week high/low RM10.48/RM6.42

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 10.5 | 22.9 | 17.6 | 10.2 | 9.7 |

### Major Shareholders %

| | |
|---|---|
| Mitsui & Co. | 32.7 |
| FY25 NAV/Share (RM) | 3.58 |
| FY25 Net Debt/Share (RM) | 1.02 |

### Price Chart




*Source: Bloomberg*

### Company Description

IHH Healthcare provides healthcare services. The company operates hospitals as well as medical centres, clinics and ancillary healthcare businesses across multiple countries, including Singapore, Malaysia, Turkey, India and Hong Kong.

- **Apples to oranges: Sunway Healthcare's possible valuation reflects its nascent growth phase.** The much-anticipated Sunway Healthcare IPO, slated for completion in 1Q26, appears to be a contributing factor to the valuation re-rating of IHH Healthcare and KPJ Healthcare. Sunway Healthcare could command a premium valuation exceeding 20x EV/EBITDA, compared with IHH Healthcare and KPJ Healthcare, which currently trade at around 17.2x and 11.7x EV/EBITDA respectively and previous average hospital transactions at 18.7x. Despite all three being private hospital operators, Sunway Healthcare is still in its early growth phase, whereas IHH and KPJ are more mature operators with largely gestated hospital portfolios, focusing primarily on brownfield and extension-driven expansions.
- **Sunway Healthcare overview: Four of five hospitals still gestating with three more greenfield projects in the pipeline.** Sunway Healthcare is currently in a ramp-up phase with five operational hospitals and three hospitals under development. Of the five operating hospitals, two have just achieved EBITDA breakeven while another two are still in the EBITDA loss-making phase as they continue ramping up. As the group is still scaling up, Sunway Healthcare's EBITDA earnings could grow exponentially and sharply moderate the said premium EV/EBITDA over the near term. This could justify its premium valuations. Its total bed capacity is expected to grow from the current 1,818 beds to 3,400 beds by 2032, representing a seven-year CAGR of 9.4%.

**Past Hospital Transactions In Malaysia**

| Hospital / Transaction | Completion Date | Implied EV/EBITDA (x) | Implied EV/bed (RMm) |
|---|---|---|---|
| Prince Court Medical Centre (100%) | Sep-20 | 21.9 | 3.7 |
| IHH (16%) | Mar-19 | 23.4 | 6.1 |
| IHH (6%) | Nov-18 | 20.2 | 5.2 |
| Amanjaya Specialist Centre (100%) | Oct-19 | 10.6 | 1.0 |
| Island Hospital (100%) | Jun-15 | 18.2 | 3.6 |
| TMC Life Sciences (77%) | Sep-14 | 24.1 | 2.0 |
| Timberland (100%) | Aug-23 | 12.0 | 3.0 |
| Island Hospital (100%)* | Sep-25 | 19.2 | 4.8 |
| **Average** | | **18.7** | **3.7** |

*Source: Respective companies*
**Excludes the value of vacant land*

## Valuation/Recommendation

- **Maintain HOLD with SOTP-based target price of RM8.05.** Our valuation implies 34.3x 2026F PE, or about -0.5 SD below its five-year mean. IHH's brownfield- and extension-led expansions across key markets are expected to sustain growth over the medium term. The group has also worked to de-risk operations and capture cost synergies in Türkiye and India, which are now yielding tangible benefits. While current valuations appear attractive - trading near -0.5 SD to five-year mean PE - it is worth noting that the historical average PE was inflated by depressed pandemic earnings. Moreover, in the current risk-on environment, we expect the more defensive IHH to underperform its higher beta-oriented peers despite solid fundamentals.

## Earnings Revision/Risk

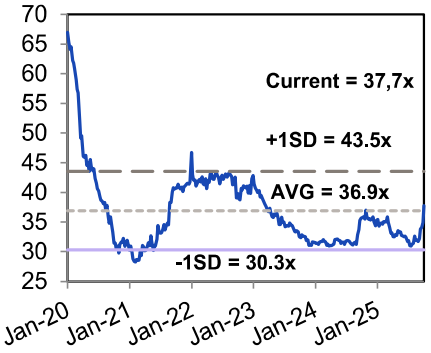
- Our earnings forecasts remain unchanged.
- Key downside risks are: a) execution risk, b) shortfall in turning around Fortis, and c) heightened regulatory hurdles.

**Budget 2026 – Healthcare related initiatives**

- Private hospitals may establish Charity Funds; fund is income tax exempt and donors receive tax deductions.
- EPF members may use Akaun Sejahtera to purchase basic medical insurance.
- RM20m allocation to the Malaysia Healthcare Travel Council for health tourism related programmes.

*Source: Ministry of Finance (MoF), UOB Kay Hian*

**IHH's Five-year PE Band**




*Source: Bloomberg, UOB Kay Hian*

**Environmental, Social, Governance (ESG)**

**Environmental**

- Waste management. 15% of non-scheduled waste generated was diverted from landfills in 2020. Ensures that all medical waste and other toxins are treated before discharge or incinerated to protect public health.

**Social**

- Diversity & inclusion. Hiring practices are non-discriminatory and equal opportunity is practiced at the workplace.

**Governance**

- Board composition. IHH has a majority of Independent Non-Executive Directors (INED) on the board. INEDs make up 54% of the board composition.

*Source: IHH Healthcare, UOB Kay Hian*

## Profit & Loss

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Net turnover** | **24,383.0** | **26,384.7** | **28,971.0** | **31,724.0** |
| EBITDA | 5,542.3 | 4,341.9 | 4,924.1 | 5,128.7 |
| Deprec. & amort. | 1,021.4 | 1,045.8 | 1,072.4 | 1,100.9 |
| EBIT | 4,520.9 | 3,296.1 | 3,851.8 | 4,027.8 |
| Total other non-operating income | 0.0 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 28.4 | 33.1 | 36.3 | 39.8 |
| Net interest income/(expense) | (792.7) | (870.0) | (852.0) | (793.0) |
| **Pre-tax profit** | **3,756.7** | **2,459.2** | **3,036.1** | **3,274.7** |
| Tax | (594.2) | (553.9) | (686.1) | (601.8) |
| Minorities | (505.4) | (97.7) | (284.0) | (291.6) |
| **Net profit** | **2,657.0** | **1,807.7** | **2,066.0** | **2,381.3** |
| Net profit (adj.) | 1,684.8 | 1,807.7 | 2,066.0 | 2,381.3 |

## Balance Sheet

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| Fixed assets | 16,229.0 | 11,946.7 | 12,286.7 | 12,648.0 |
| Other LT assets | 33,659.0 | 37,895.9 | 37,340.5 | 36,692.5 |
| Cash/ST investment | 1,510.0 | 2,488.1 | 3,725.6 | 5,530.2 |
| Other current assets | 5,361.0 | 5,415.8 | 5,818.2 | 6,284.8 |
| **Total assets** | **56,759.0** | **57,746.5** | **59,171.0** | **61,155.6** |
| ST debt | 3,560.0 | 3,560.0 | 3,560.0 | 3,560.0 |
| Other current liabilities | 6,016.0 | 6,713.5 | 7,113.8 | 7,844.8 |
| LT debt | 9,366.0 | 8,000.0 | 7,000.0 | 6,000.0 |
| Other LT liabilities | 3,909.0 | 3,909.0 | 3,909.0 | 3,909.0 |
| Shareholders' equity | 30,140.0 | 31,405.4 | 32,851.5 | 34,518.4 |
| Minority interest | 3,768.0 | 4,158.7 | 4,736.7 | 5,323.3 |
| **Total liabilities & equity** | **56,759.0** | **57,746.5** | **59,171.0** | **61,155.6** |

## Cash Flow

| Year to 31 Dec (RMm) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Operating** | **4,285.0** | **4,798.0** | **4,803.1** | **5,458.3** |
| Pre-tax profit | 3,756.7 | 2,459.2 | 3,036.1 | 3,274.7 |
| Tax | (594.2) | (553.9) | (686.1) | (601.8) |
| Deprec. & amort. | 1,021.4 | 1,045.8 | 1,072.4 | 1,100.9 |
| Associates | (28.4) | (33.1) | (36.3) | (39.8) |
| Working capital changes | (715.0) | 641.9 | (3.0) | 263.2 |
| Other operating cashflows | 844.6 | 1,238.1 | 1,420.1 | 1,461.1 |
| **Investing** | **(8,247.0)** | **(1,194.6)** | **(1,247.9)** | **(1,301.3)** |
| Capex (growth) | (3,129.0) | (1,301.5) | (1,351.5) | (1,401.5) |
| Investments | 140.0 | 173.1 | 209.4 | 249.2 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (5,258.0) | (66.2) | (105.7) | (149.0) |
| **Financing** | **3,033.0** | **(2,625.3)** | **(2,317.7)** | **(2,352.3)** |
| Dividend payments | (1,224.0) | (542.3) | (619.8) | (714.4) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 5,097.0 | (1,366.0) | (1,000.0) | (1,000.0) |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (840.0) | (717.0) | (698.0) | (638.0) |
| **Net cash inflow (outflow)** | **(929.0)** | **978.1** | **1,237.5** | **1,804.6** |
| **Beginning cash & cash equivalent** | **2,379.1** | **1,510.0** | **2,488.1** | **3,725.6** |
| Changes due to forex impact | 59.9 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **1,510.0** | **2,488.1** | **3,725.6** | **5,530.2** |

## Key Metrics

| Year to 31 Dec (%) | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 22.7 | 16.5 | 17.0 | 16.2 |
| Pre-tax margin | 15.4 | 9.3 | 10.5 | 10.3 |
| Net margin | 10.9 | 6.9 | 7.1 | 7.5 |
| ROA | 5.0 | 3.2 | 3.5 | 4.0 |
| ROE | 9.0 | 5.9 | 6.4 | 7.1 |
| **Growth** | | | | |
| Turnover | | | | |
| EBITDA | 16.5 | 8.2 | 9.8 | 9.5 |
| Pre-tax profit | (1.9) | (21.7) | 13.4 | 4.2 |
| Net profit | (2.1) | (34.5) | 23.5 | 7.9 |
| Net profit (adj.) | (10.0) | (32.0) | 14.3 | 15.3 |
| EPS | 31.6 | 7.3 | 14.3 | 15.3 |
| **Leverage** | 31.6 | 7.3 | 14.3 | 15.3 |
| Debt to total capital | | | | |
| Debt to equity | | | | |
| Net debt/(cash) to equity | 27.6 | 24.5 | 21.9 | 19.4 |
| Interest cover | 42.9 | 36.8 | 32.1 | 27.7 |

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